

## Auditing Procedures Report

Issued under P.A. 2 of 1986, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name HILLMAN TOWNSHIP	County MONTMORENCY
Fiscal Year End MARCH 31, 2006	Opinion Date 8/16/06	Date Audit Report Submitted to State 9/27/06	

We affirm that:

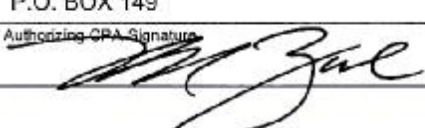
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that I not been communicated, please submit a separate report under separate cover.
  - ☐ ☒ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) THOMAS R ZICK CPA, P.C.		Telephone Number 989-786-4032	
Street Address P.O. BOX 149		City LEWISTON	State MI
Authorizing CPA Signature 		Printed Name THOMAS R ZICK, CPA	License Number 1101007478

**HILLMAN TOWNSHIP  
BASIC FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

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**Thomas R. Zick CPA, P.C.**  
CERTIFIED PUBLIC ACCOUNTANT

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## INDEPENDENT AUDITOR'S REPORT

August 16, 2006

Township Board  
Hillman Township  
Hillman, Michigan 49746

I have audited the accompanying financial statements of the governmental activities, the business type activity, and each major fund of Hillman Township, Montmorency County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hillman Township's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activity, and each major fund, of Hillman Township, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic financial Statements – and Management's Discussion and Analysis – for State and Local governments, along with all related statements and interpretations, as of April 1, 2005.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

THOMAS R. ZICK CPA, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

# **HILLMAN TOWNSHIP**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

### **THE TOWNSHIP AS A WHOLE**

The Township's combined net assets increased 6.27% from a year ago – increasing by \$63,281. As we look at the governmental activities you can see the increase occurred throughout the entire group of governmental funds.

This year the Township has seen minor growth in new residential construction and the development of a new facility moving into the new Agriculture Renaissance Zone. A new walk-in cooler and signage were installed at the Hillman Community Center

In a condensed format, the table below shows a calculation of the net assets as of the current balance sheet date. Since this is the first year for GASB # 34 no comparative figures are shown.

	Governmental Activities	Business Type Activity	Total
Current Assets	\$ 439,587	\$ 5,748	\$ 445,335
Noncurrent Assets	319,009	314,453	633,462
Total Assets	758,596	320,201	1,078,797
Current Liabilities	1,813	5,156	6,969
Total Liabilities	1,813	5,156	6,969
Net Assets			
Invested in Capital Assets -			
Net of Debt	319,009	314,453	633,462
Restricted	130,083	-	130,083
Unrestricted	307,691	592	308,283
Total Net Assets	\$ 756,783	\$ 315,045	\$ 1,071,828

Unrestricted net assets – the part of net assets that can be used to finance day to day operations ended the year at \$308,283.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following table shows the changes in the net assets as of the current year. Since this is the first year for GASB # 34 no comparative figures are shown.

	Governmental Activities	Business Type Activity	Total
Program Revenues			
Charges for Services	\$ 38,661	\$ 61,754	\$ 100,415
Operating Grants and contributions	7,000	-	7,000
Capital Grants and contributions	-	-	-
General Revenues			
Property Taxes	132,305	-	132,305
State Shared Revenues	109,616	-	109,616
Unrestricted Investment Earnings / Other Revenue	19,209	10	19,219
Transfers In (Out)	(18,449)	18,449	-
Total Revenues	288,342	80,213	368,555
Program Expenses			
General government	129,137	100,318	229,455
Public Safety	67,246	-	67,246
Public Works	6,300	-	6,300
Recreation and Culture	23,162	-	23,162
Total Expenses	225,845	100,318	326,163
Change in Net Assets	\$ 62,497	\$ (20,105)	\$ 42,392

The Township's net assets continue to remain healthy. The total revenues grew slightly faster than inflation while we were able to hold expenses in line.

### GOVERNMENTAL ACTIVITIES

The Township's total governmental revenues were \$306,791.

During the year the Township has worked hard on getting the Clean Water Ordinance completed. After implementing it ten years ago, we have so far, obtained a 99% compliance and will be expecting 100% by year end. There has been a civil infractions officer appointed by the Township board to enforce township ordinances. A recycling drop off center has been implemented and is currently picking up recyclables at the Community Center every week.

### THE TOWNSHIP'S FUNDS

Our analysis of the Township's major funds begins on page 7 following the Township-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the township as a whole. The township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2005/06 include the General Fund and Fire Fund.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **THE TOWNSHIP'S FUNDS (CONTINUED)**

The General fund pays for most of the Township's governmental services. The most significant expenditures are assessing at \$24,777, transfer to building Authority at \$18,449.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Township board amended the budget several times. There were only minor budget variations at the year end. The General Fund Balance increased by \$74,136 during the year.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

At March 31, 2006 the Township had \$633,462 invested in net capital assets in a broad range of capital assets, including buildings, park equipment, and other office equipment.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Township's budget for 2006/07 calls for no increase in property tax rates. Because of the impact of Proposal A, however, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

With the additional parcels added to the assessment roll and through the continued growth in our tax base, we do not anticipate any changes to our tax rates for 2006-07. We continue to watch our budget closely.

### **CONTACTING THE TOWNSHIP'S MANAGEMENT**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the supervisor or clerk at (989) 742-3096 or visit the Township office located in Hillman, Michigan.

HILLMAN TOWNSHIP  
STATEMENT OF NET ASSETS  
MARCH 31, 2006

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash demand, time deposits, and investments	\$ 421,990	\$ 5,748	\$ 427,738
Receivables			
Taxes	14,980	-	14,980
Administration Fee	2,617	-	2,617
Capital assets			
Land	128,164	26,000	154,164
Other capital assets, net of depreciation	<u>190,845</u>	<u>288,453</u>	<u>479,298</u>
 TOTAL ASSETS	 <u>758,596</u>	 <u>320,201</u>	 <u>1,078,797</u>
 LIABILITIES			
Accrued liabilities	<u>1,813</u>	<u>5,156</u>	<u>6,969</u>
 TOTAL LIABILITIES	 <u>1,813</u>	 <u>5,156</u>	 <u>6,969</u>
 NET ASSETS			
Invested in capital assets, net of related debt	319,009	314,453	633,462
Restricted for:			
Fire Fund	92,868	-	92,868
Cemetery Fund	37,215	-	37,215
Unrestricted	<u>307,691</u>	<u>592</u>	<u>308,283</u>
 TOTAL NET ASSETS	 <u>\$ 756,783</u>	 <u>\$ 315,045</u>	 <u>\$ 1,071,828</u>

See Notes to Financial Statements



HILLMAN TOWNSHIP  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2006

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants	Governmental Activities	Business Type Activity	Total
<b>Primary Government</b>							
<b>Governmental Activities</b>							
General Government	\$ 129,137	\$ 35,966	\$ 7,000	\$ -	\$ (86,171)	\$ -	\$ (86,171)
Public Safety	67,246	2,695	-	-	(64,551)	-	(64,551)
Public Works	6,300	-	-	-	(6,300)	-	(6,300)
Recreation and Culture	23,162	-	-	-	(23,162)	-	(23,162)
Total Governmental Activities	225,845	38,661	7,000	-	(180,184)	-	(180,184)
<b>Business Type Activity</b>							
Building Authority	100,318	61,754	-	-	-	(38,564)	(38,564)
Total Primary Government	\$ 326,163	\$ 100,415	\$ 7,000	\$ -	(180,184)	(38,564)	(218,748)
<b>General revenues:</b>					Governmental Activities	Business Type Activities	Total
Taxes:							
Property taxes levied for general operating purposes					132,305	-	132,305
State Revenue Sharing not restricted to specific purposes					109,616	-	109,616
Interest and royalty earnings / other revenue					7,651	10	7,661
Miscellaneous Income					11,558	-	11,558
Transfers					(18,449)	18,449	-
Total general revenues and taxes					242,681	18,459	261,140
Change in net assets					62,497	(20,105)	\$ 42,392
Net assets, beginning of year					694,286	335,150	1,029,436
<b>Net assets, end of year</b>					\$ 756,783	\$ 315,045	\$ 1,071,828

See Notes to Financial Statements

HILLMAN TOWNSHIP  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2006

	GENERAL FUND	FIRE FUND	NON-MAJOR FUND CEMETERY FUND	TOTAL
ASSETS				
Cash and Investments	\$ 298,408	\$ 86,367	\$ 37,215	\$ 421,990
Receivables				
Taxes	8,479	6,501	-	14,980
Administration Fee	<u>2,617</u>	<u>-</u>	<u>-</u>	<u>2,617</u>
 TOTAL ASSETS	 <u>\$ 309,504</u>	 <u>\$ 92,868</u>	 <u>\$ 37,215</u>	 <u>\$ 439,587</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accrued Liabilities	<u>\$ 1,813</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,813</u>
 TOTAL LIABILITIES	 <u>1,813</u>	 <u>-</u>	 <u>-</u>	 <u>1,813</u>
FUND BALANCES				
Reserved	-	92,868	37,215	130,083
Unreserved	<u>307,691</u>	<u>-</u>	<u>-</u>	<u>307,691</u>
 TOTAL FUND BALANCES	 <u>307,691</u>	 <u>92,868</u>	 <u>37,215</u>	 <u>437,774</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 309,504</u>	 <u>\$ 92,868</u>	 <u>\$ 37,215</u>	 <u>\$ 439,587</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP  
Reconciliation of Fund Balances on the Balance Sheet  
for Governmental Funds to Net Assets of  
Governmental Activities on the Statement of Net Assets  
MARCH 31, 2006

Fund Balances - Total Governmental Funds	\$ 437,774
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets - at Cost	381,939
Accumulated Depreciation	<u>(62,930)</u>

Net Assets of Governmental Activities	<u>\$ 756,783</u>
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See Notes to Financial Statements

HILLMAN TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED MARCH 31, 2006

	GENERAL FUND	FIRE FUND	NON-MAJOR FUND CEMETERY FUND	TOTAL
REVENUES				
Taxes	\$ 83,071	\$ 49,234	\$ -	\$ 132,305
State Sources	109,616	-	-	109,616
Other Governments	1,000	-	6,000	7,000
Charges for Services	2,695	-	8,518	11,213
Interest Income / Royalty Income	5,982	1,084	585	7,651
Administration Fee	27,448	-	-	27,448
Other Revenue	11,408	-	150	11,558
	<u>241,220</u>	<u>50,318</u>	<u>15,253</u>	<u>306,791</u>
TOTAL REVENUES				
EXPENDITURES				
General Government	110,961	-	17,373	128,334
Public Safety	6,579	60,667	-	67,246
Public Works	6,300	-	-	6,300
Recreation & Culture	12,204	-	-	12,204
Capital Outlay	6,591	-	-	6,591
	<u>142,635</u>	<u>60,667</u>	<u>17,373</u>	<u>220,675</u>
TOTAL EXPENDITURES				
REVENUES OVER (UNDER)				
EXPENDITURES	98,585	(10,349)	(2,120)	86,116
OTHER FINANCING SOURCES (USES)				
Operating Transfer In	-	-	6,000	6,000
Operating Transfer Out	(24,449)	-	-	(24,449)
	<u>(24,449)</u>	<u>-</u>	<u>-</u>	<u>(24,449)</u>
Total Other Financing (Uses)	(24,449)	-	6,000	(18,449)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	74,136	(10,349)	3,880	67,667
FUND BALANCES, BEGINNING OF YEAR	<u>233,555</u>	<u>103,217</u>	<u>33,335</u>	<u>370,107</u>
FUND BALANCES, END OF YEAR	<u>\$ 307,691</u>	<u>\$ 92,868</u>	<u>\$ 37,215</u>	<u>\$ 437,774</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
FOR THE YEAR ENDED MARCH 31, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 67,667
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Amounts reported for *governmental activities* in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in  
the statement of activities, the cost of those assets is allocated over their  
estimated useful lives and reported as depreciation expense.

Add - Capital Outlay	6,591
Deduct - Depreciation Expense	<u>(11,761)</u>

Change in Net Assets of Governmental Funds	<u>\$ 62,497</u>
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See Notes to Financial Statements

HILLMAN TOWNSHIP  
 PROPRIETARY FUND  
 STATEMENT OF NET ASSETS  
 MARCH 31, 2006

	ENTERPRISE FUND
	<u>BUILDING AUTHORITY</u>
ASSETS	
Current Assets	
Cash and Investments	\$ 5,748
Capital Assets	
Land, Building & Equipment - Net of Depreciation	<u>314,453</u>
 TOTAL ASSETS	 <u>320,201</u>
 LIABILITIES	
Accrued Liabilities	<u>5,156</u>
 TOTAL LIABILITIES, ALL CURRENT	 <u>5,156</u>
 NET ASSETS	
Investment in Capital Assets, Net of Related Debt	314,453
Unrestricted net assets	<u>592</u>
 TOTAL NET ASSETS	 <u>\$ 315,045</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP  
 PROPRIETARY FUND  
 STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN NET ASSETS  
 MARCH 31, 2006

	ENTERPRISE FUND
	BUILDING AUTHORITY
OPERATING REVENUES	
Rentals	\$ 35,267
Merchandise	10,219
Roller Skating	13,758
Miscellaneous	<u>2,510</u>
TOTAL OPERATING REVENUES	<u>61,754</u>
OPERATING EXPENSES	
Wages	30,100
Fringe Benefits	2,303
Banquet Supplies / Concessions	10,212
Insurance	3,161
Supplies	591
Services	2,453
Repair & Maintenance	11,871
Utilities	15,130
Depreciation Expense	<u>24,497</u>
TOTAL OPERATING EXPENSES	<u>100,318</u>
OPERATING INCOME (LOSS)	(38,564)
NONOPERATING REVENUES (EXPENSES)	
Township Contribution	18,449
Interest Earned on Investments	<u>10</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>18,459</u>
NET INCOME (LOSS)	(20,105)
NET ASSETS, BEGINNING OF YEAR	<u>335,150</u>
NET ASSETS, END OF YEAR	<u><u>\$ 315,045</u></u>

See Notes to Financial Statements

HILLMAN TOWNSHIP  
 PROPRIETARY FUND  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED MARCH 31, 2006

	ENTERPRISE FUND BUILDING AUTHORITY
Cash Flows from Operating Activities:	
Cash received from customers	\$ 61,754
Cash payments for goods and services	(43,418)
Cash payments to employees and for fringes	<u>(31,448)</u>
Net Cash Provided (Used) by Operating Activities	<u>(13,112)</u>
Cash flows From Capital and Related Financing Activities:	
Acquisition of capital assets	(7,025)
Township contribution	<u>18,449</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>11,424</u>
Cash Flows from Investing Activities:	
Interest Received	<u>10</u>
Net Cash Provided by Investing Activities	<u>10</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,678)
Cash and Cash Equivalents, Beginning of Year	<u>7,426</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 5,748</u></u>
Operating Income (Loss)	\$ (38,564)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	24,497
Change in Assets and Liabilities	
Increase (Decrease) in Accrued Liabilities	<u>955</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (13,112)</u></u>

See Notes to Financial Statements



HILLMAN TOWNSHIP  
STATEMENT OF FIDUCIARY FUND NET ASSETS  
AGENCY FUNDS  
MARCH 31, 2006

ASSETS

Cash	\$ <u>5,269</u>
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TOTAL ASSETS	\$ <u><u>5,269</u></u>
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LIABILITIES

Due to Other Governmental Units	\$ <u>5,269</u>
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TOTAL LIABILITIES	\$ <u><u>5,269</u></u>
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See Notes to Financial Statements

HILLMAN TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Hillman Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township.

**REPORTING ENTITY**

The General Law Township is located in Montmorency County, Michigan and operated under an elected Township Board consisting of a Supervisor, Treasurer, Clerk, and two Trustees. This Board and its employees provide services to its residents in areas such as fire protection, ambulance service, voter registration, maintenance and operation of township facilities, planning and zoning.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Township's reporting entity, and which organizations are legally separate, component units of the Township. Based on the application of the criteria, the Township does not contain any component units.

**JOINTLY GOVERNED ORGANIZATION**

The Hillman-Rust Cemetery Commission is operated under a joint agreement with Rust Township. The Commission is reported as a non-major fund in the Hillman Township report.

The Hillman Fire and Ambulance Department is a jointly operated department composed of Hillman Township, Village of Hillman, Montmorency Township and Rust Township. It is audited separately from any of the governmental entities. A copy of a financial statement and audit report would be available at the Fire Department offices located at 131 W. Third Street, Hillman, Michigan 49746. The telephone number is 989-742-3221. The Township's contribution to the fire department for the year was \$60,667.

**TOWNSHIP-WIDE AND FUND FINANCIAL STATEMENTS**

The township-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Township's Township-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the township-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

HILLMAN TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

**Township-Wide Financial Statements** - The township-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the township-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid/revenue sharing.

**Fund Financial Statements** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state revenue sharing, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Township.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The Township reports the following major governmental funds:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

**Fire Fund** – This is a special revenue fund used to record revenue and expenditures related to the fire department which is a joint department with other governmental entities.

The Township reports only one business type activity fund, the Building Authority Fund, which is an enterprise fund and is reported as a major fund.

Additionally, the Township reports the following governmental fund as non major fund, Special Revenue Cemetery Fund.

**Fiduciary Funds** – The Township maintains an Agency Fund to record the tax collection transactions. The funds are segregated and used to record the tax collection and distribution of taxes to the various taxing entities.

HILLMAN TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

**Cash and Investments** – Cash and investments include cash on hand, demand deposits, and savings accounts and certificates of deposit. There are no investments at March 31, 2006.

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds.”

All property tax receivables are shown net of an allowance for uncollectible amounts. The Township considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes are levied and become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county delinquent tax rolls. The County operates a delinquent tax revolving fund and normally pays to the Township all current taxes annually prior to June 30.

**Capital Assets** – Capital assets, which include land, land improvements, buildings, and equipment, are reported in the applicable governmental column in the Township-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$400 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Township does not have infrastructure-type assets.

Buildings and equipment are depreciated using the straight-line method over the following useful lives:

Land improvements	15-20 years
Buildings and building additions	15-40 years
Furniture and other equipment	5-15 years

**Long-Term Obligations** – In the Township-wide financial statements long-term debt and other long-term obligations would be reported as liabilities in the statement of net assets. Hillman Township has no long term debt.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Date** – Comparative data is not included in the Township's financial statements, because this is the first year of implementation for GASB #34.

**Accounting Change** – Effective April 1, 2005, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) along with all related statements and interpretations. Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

- § A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

HILLMAN TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- § Township-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided.
- § Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$319,009 not previously accounted for by the Township
- § The fund financial statements focus on major funds rather than fund types.

**BUDGETS AND BUDGETARY ACCOUNTING**

All funds are under the direct supervision and budgetary control of the Township board. In accordance with PA 621 of 1978, the Uniform Budgeting and Accounting Act as amended, the Township board adopts a budget for the general fund and the fire special revenue fund. Any budget violations are disclosed in the audits of the Township's financial statements as required by law.

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The budgets, as adopted, lapse after the close of the fiscal, and a new budget is adopted for the ensuing year. The budget for Hillman Township, as presented in the accompanying financial statements is the amended budget as well as the original adopted budget for the funds required to be budgeted under state statute.

**NOTE 2- STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at the fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits Townships to amend their budgets during the year.

**Excess Expenditures Over Appropriations in Budgeted Funds** - The Township is required under Public Act 621 of 1978 to adopt (pass) a budget (General Appropriations Act) for the General Fund and Individual Special Revenue Funds. The Township complied in all areas. The following expenditure line items exceeded budgeted amounts

	<u>Amended Budget ,</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Treasurer	\$ 16,759	\$ 16,817	\$ (58)
Assessor	\$ 24,731	\$ 24,777	\$ (46)
Planning & Zoning	\$ 6,000	\$ 6,579	\$ (579)
Parks	\$ 8,083	\$ 8,258	\$ (175)

HILLMAN TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**NOTE 3 - CASH AND INVESTMENTS**

The captions on the combined balance sheet related to cash and investments are as follows:

	Cash/checking	
	<u>Cert of Dep</u>	<u>and Savings</u>
	<u>Total</u>	
Government Activities	\$ 87,998	\$ 333,992
Business Type Activities	-0-	5,748
Agency Funds	-0-	5,269
	<u>\$ 87,998</u>	<u>\$ 345,009</u>
		<u>\$ 433,007</u>

Deposits - At year-end, the carrying amount of the Township's deposits was \$433,007 and the bank balance was \$433,130 was classified as to risk as follows.

Insured	\$ 426,460
Uninsured – Uncollateralized	6,547
	<u>\$ 433,007</u>

Investments – Act 217, PA 1982, authorized the Township to deposit and invest in the following:

- a. Bonds, bills, and other direct obligations of the United States or its agencies.
- b. Certificates of deposit and other savings instruments issued by a federally insured bank, savings and loan or credit union maintaining an office in Michigan.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Mutual Funds comprised of investments which are legal for direct investment by local units of government in Michigan.
- e. U.S. Government or federal agency obligation repurchase agreements.
- f. Bankers' acceptance of United States banks

The Township Board is authorized to designate depositories for Township funds, and the funds are invested in accordance with State of Michigan statutory authority.

**Credit Risk**

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). There were no investments at March 31, 2006.

**Interest Rate Risk**

The Township has not adopted a policy that indicates how the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time. There were no investments at March 31, 2006.

HILLMAN TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

Concentration of Credit Risk

The Township has not adopted a policy that indicates how the Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. There were no investments at March 31, 2006.

Custodial Credit Risk

The Township has not adopted a policy that indicates how the Township will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

The Township Board is authorized to designate depositories for Township funds, and the funds are invested in accordance with State of Michigan statutory authority.

**NOTE 4 - RISK MANAGEMENT**

The Township purchases insurance in the Michigan Township Participating Plan for its liability, property and automobile coverage.

Worker compensation is purchased through the Accident Fund Insurance Company of America.

The Michigan Township Participating Plan is an authorized Michigan Self-Insurance Association and Hillman Township is accepted as a member in this plan organized under Public Act 138 of 1982. A substantial number of Michigan townships participate in this coverage.

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity of the Township's governmental activities for the current year was as follows:

	Balance March 31, 2005	Additions	Disposals	Balance March 31, 2006
Capital assets not being depreciated:				
Land	\$ 128,164	\$ -	\$ -	\$ 128,164
Capital assets being depreciated:				
Building and building improvements	113,448	-	-	113,448
Land Improvements	17,842	5,600	-	23,442
Equipment	115,894	991	-	116,885
Subtotal	<u>247,184</u>	<u>6,591</u>	<u>-</u>	<u>253,775</u>
Accumulated depreciation	<u>51,169</u>	<u>11,761</u>	<u>-</u>	<u>62,930</u>
Net capital assets being depreciated	<u>196,015</u>	<u>(5,170)</u>	<u>-</u>	<u>190,845</u>
Net governmental capital assets	<u>\$ 324,179</u>	<u>\$ (5,170)</u>	<u>\$ -</u>	<u>\$ 319,009</u>

HILLMAN TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**NOTE 5 – CAPITAL ASSETS ( CONTINUED)**

Capital asset activity of the business type activities for the current year was as follows:

	Balance <u>March 31, 2005</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>March 31, 2006</u>
Capital assets not being depreciated:				
Land	\$ 26,000	\$ -	\$ -	\$ 26,000
Capital assets being depreciated:				
Building and building improvements	348,316	-	-	348,316
Capital Improvements	134,480	-	-	134,480
Equipment	<u>316,200</u>	<u>7,025</u>	-	<u>323,225</u>
Subtotal	<u>798,996</u>	<u>7,025</u>	-	<u>806,021</u>
Accumulated depreciation	<u>493,071</u>	<u>24,497</u>	-	<u>517,568</u>
Net capital assets being depreciated	<u>305,925</u>	<u>(17,472)</u>	-	<u>288,453</u>
Net business type capital assets	<u>\$ 331,925</u>	<u>\$ (17,472)</u>	<u>\$ -</u>	<u>\$ 314,453</u>

Depreciation expense was charged to activities of the Township as follows:

Governmental Activities:	
General Government	\$ 803
Recreation and Culture	<u>10,958</u>
Total	<u>\$ 11,761</u>
Business Type Activities:	
Building Authority	<u>\$ 24,497</u>
Total	<u>\$ 24,497</u>



## **REQUIRED SUPPLEMENTARY INFORMATION**

HILLMAN TOWNSHIP  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, OTHER SOURCES (USES)  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	\$ 77,000	\$ 77,000	\$ 83,071	\$ 6,071
State Sources	111,500	111,500	109,616	(1,884)
Other Governments	1,000	1,000	1,000	-
Charges for Services	1,500	1,500	2,695	1,195
Interest Income	1,500	1,500	5,982	4,482
Administration Fee	19,000	19,000	27,448	8,448
Other	13,000	13,000	11,408	(1,592)
TOTAL REVENUES	224,500	224,500	241,220	16,720
EXPENDITURES				
General Government:				
Township Board	55,000	55,352	33,658	21,694
Supervisor	10,800	9,800	7,490	2,310
Clerk	14,500	14,500	13,418	1,082
Board of Review	1,000	1,000	677	323
Treasurer	16,759	16,759	16,817	(58)
Assessor	22,880	24,731	24,777	(46)
Election	500	500	181	319
Community Center	20,150	20,150	13,943	6,207
EDC	100	100	-	100
Capital Outlay	6,591	6,591	6,591	-
Total General Government	148,280	149,483	117,552	31,931
Public Safety:				
Emergency Preparedness	200	200	-	200
Planning and Zoning	6,000	6,000	6,579	(579)
Total Public Safety	6,200	6,200	6,579	(379)
Public Works				
Roads	10,000	9,649	6,300	3,349
Total Public Works	10,000	9,649	6,300	3,349
Recreation & Culture:				
Parks	6,400	8,083	8,258	(175)
Airport	500	500	-	500
Library	10,000	7,465	3,946	3,519
Total Recreation & Culture	16,900	16,048	12,204	3,844
TOTAL EXPENDITURES	181,380	181,380	142,635	38,745
REVENUES OVER (UNDER) EXPENDITURES	43,120	43,120	98,585	55,465
OTHER FINANCING (USES)				
Operating Transfer Out	(25,450)	(25,450)	(24,449)	1,001
Total Other Financing (Uses)	(25,450)	(25,450)	(24,449)	1,001
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	17,670	17,670	74,136	56,466
FUND BALANCES, BEGINNING OF YEAR	233,555	233,555	233,555	-
FUND BALANCES, END OF YEAR	\$ 251,225	\$ 251,225	\$ 307,691	\$ 56,466

See Notes to Financial Statements

HILLMAN TOWNSHIP  
FIRE FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	\$ 43,000	\$ 43,000	\$ 49,234	\$ 6,234
Interest	<u>-</u>	<u>-</u>	<u>1,084</u>	<u>1,084</u>
TOTAL REVENUES	<u>43,000</u>	<u>43,000</u>	<u>50,318</u>	<u>7,318</u>
EXPENDITURES				
Public Safety				-
Contractual Services	<u>60,700</u>	<u>60,700</u>	<u>60,667</u>	<u>33</u>
TOTAL EXPENDITURES	<u>60,700</u>	<u>60,700</u>	<u>60,667</u>	<u>33</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(17,700)</u>	<u>(17,700)</u>	<u>(10,349)</u>	<u>7,351</u>
FUND BALANCES, BEGINNING OF YEAR	<u>103,217</u>	<u>103,217</u>	<u>103,217</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 85,517</u>	<u>\$ 85,517</u>	<u>\$ 92,868</u>	<u>\$ 7,351</u>



**Thomas R. Zick CPA, P.C.**  
CERTIFIED PUBLIC ACCOUNTANT

P.O. BOX 149, 2947 MANTZ STREET  
LEWISTON, MICHIGAN 49756  
TELEPHONE: (989) 786-4032  
FAX: (989) 786-4032

## FINANCIAL AUDIT COMMENTS

August 16, 2006

Township Board  
Hillman Township  
Hillman, Michigan 49746

In planning and performing my audit of the general purpose financial statements of Hillman Township, Montmorency County for the year ended March 31, 2006, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure. However, I noted certain matters involving the internal control structure and its operation that I feel should be brought to your attention and are summarized below.

### INTEREST REVENUE / CASH ACCOUNTS

A receipt should be written for all interest received, even if it is being added to a savings or certificate of deposit balance. This receipt would then be posted by the Clerk, so that all cash accounts can be reconciled to the monthly statements not just the checking account.

### BUDGET / BUDGET ADJUSTMENTS

The Township properly adopted the budget although the budget document should separate the Fire Fund from the General Fund. Throughout the year adjustments were made, however the final adjustment for the year must be done prior to March 31. The adjustments made at the April 10, 2006 meeting are not considered to have been timely made.

Because the April 10, 2006 adjustments have not been included in the final budget several expenditure categories exceeded the final amended budget as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Treasurer	\$ 16,759	\$ 16,817	\$ (58)
Assessor	\$ 24,731	\$ 24,777	\$ (46)
Planning & Zoning	\$ 6,000	\$ 6,579	\$ (579)
Parks	\$ 8,083	\$ 8,258	\$ (175)

### CAPITAL ASSETS

GASB #34 requires a complete listing of long-term assets recorded at cost, which are depreciated over an estimated useful life. Included in that listing would be assets that are donated to the Township. Generally Accepted Accounting Principles values donated assets at their fair market value at the date of donation. Examples at Hillman township would be the playground equipment at the park.

### INSURANCE POLICY

Presently the insurance policy still shows the Kellogg Foundation and National Center for Boundless Playground as additional insureds on your 7/1/05 – 7/1/06 policy. They should no longer have an insurable interest in the playground equipment and should be removed from that endorsement of the policy.

### CEMETERY

Form 941 for the quarter ending December 31, 2005 was not timely filed. As of the audit date it has been filed.

### STATE CHART OF ACCOUNTS

The state chart of accounts requires account numbers for each balance sheet, revenue, and expenditure account. In order to comply with state requirements for township accounting these numbers must be used. The Auditing Procedures Report that I must submit with each governmental audit specifically asks if the local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. I have to answer that question no because your general ledger does not include any account numbers. It is done by account name only. This is a repeat comment from prior years.

Overall the records were coded properly and the Clerk and Treasurer reconciled the checking account timely and accurately. By recording the interest income on all of the other bank accounts, the Clerk's ledger and Treasurer's records will balance. We will assist your Clerk in posting the necessary journal entries at year end.

I would like to thank your Clerk, Treasurer, and Supervisor for their assistance while I performed the audit.

This report is intended solely for the information and use of the Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Thomas R. Zick CPA, P.C.  
Certified Public Accountant